

FITCH RATES ALASKA'S INTERNATIONAL AIRPORT SYSTEM REV BONDS 'A+'; OUTLOOK STABLE

Fitch Ratings-Chicago-19 November 2015: Fitch Ratings has assigned an 'A+' rating to the State of Alaska's approximately \$185.9 million of airport revenue bonds issued on behalf of the Alaska International Airport System (AIAS). The 2016 bonds are expected to consist of subseries 2016A, 2016B, 2016C, and 2016D. The Rating Outlook is Stable.

KEY RATING DRIVERS

The rating reflects AIAS' moderately strong cargo position and air service monopoly supported by a modestly sized traffic base, conservative debt structure, and management continually prepaying debt. Cargo volume continues to be volatile but is somewhat mitigated by a more stable passenger enplanement base of over 3 million, modest operating revenue growth, and controlled operating expenses. AIAS' liquidity position remains strong with over 500 days cash on hand (DCOH) and leverage (net debt to cash flow available for debt service, CFADS) has dropped to 7.46x.

STRONG MARKET POSITION: REVENUE RISK - VOLUME: MIDRANGE

Air travel is essential in Alaska due to a lack of alternatives which provides a stable origination and destination (O&D) base. Two major airports, Anchorage (ANC) and Fairbanks (FAI), are strategically located for air cargo along the great circle route, and cargo provides over half of total operating revenues but remains vulnerable to global economic conditions as well as changes in trade policy and fuel costs.

FAVORABLE RATE SETTING APPROACH: REVENUE RISK - PRICE: STRONGER

Carriers operate under a full residual operating agreement which allows AIAS to set and adjust rates to ensure sufficient revenues for operating and maintenance, reserves, and the rate covenant. The operating agreement was renewed for an additional 10 years under similar strong cost recovery terms. Cost per enplanement (CPE) was \$10.73 in fiscal 2015, slightly above peers.

LARGE CAPITAL PROGRAM: INFRASTRUCTURE DEVELOPMENT & RENEWAL: STRONGER

The airport has a large \$448 million capital program through 2023 funded through grants, rates and fees, and internal reserves. No new near term debt is anticipated. The largest project is resurfacing the ANC airfield which is expected to last several years. Relatively new terminal facilities are in good condition.

CONSERVATIVE DEBT STRUCTURE, DEBT STRUCTURE: STRONGER

The system has a reasonable amount of debt outstanding given its size with approximately 90% of debt fixed rate. AIAS has used and has planned additional use of available cash to pay-down debt and lowers annual debt service.

SOUND FINANCIAL METRICS

AIAS' healthy balance sheet helps manage financial metrics of 7.46x leverage, \$165 debt per enplanement, and over 500 DCOH. Fiscal 2014 debt service coverage was 1.25x with PFCs included as revenues.

PEER ANALYSIS

Louisville and Memphis are Fitch-rated peers with dual dependency on cargo operations and passenger traffic. Louisville maintains higher coverage, better liquidity, smaller capital improvement plan (CIP), and less debt obligations but has a smaller passenger enplanement base.

Memphis has around the same CPE and debt obligations as Alaska but slightly lower enplanements and weaker liquidity.

RATING SENSITIVITIES

Negative - Significant cargo and passenger enplanement volatility and material changes in internal liquidity could pressure the rating.

Negative - Management's inability to continue to successfully control operating costs causing narrower financial margins could also pressure the rating.

Positive - None considered at this time due to the airport's enplanement size and cargo dependence.

TRANSACTION SUMMARY

The series 2016 bonds are being issued to refinance certain outstanding indebtedness issues by AIAS for airport projects. The 2016B and 2016D bonds are being issued through a delayed delivery. The state expects to enter into a delayed delivery bond purchase contract for the 2016B and 2016D bonds with Goldman Sachs & Co.; Fitch notes that ratings at the time of delivery of the 2016B and 2016D bonds could be different from the ratings assigned today. The Underwriters' obligations under the Delayed Delivery Bond Purchase Contract are not conditioned upon the assignment of any particular ratings for the 2016B and 2016D bonds or the maintenance of the initial ratings of the 2016B and 2016D bonds.

Fitch continues to monitor developments associated with AIAS' air cargo as well as passenger traffic and revenue profile. Since Fitch's last review, AIAS completed fiscal 2015 (fiscal year end June 30) with total revenues increasing 8.4% from the 6.3% increase in cargo landed weight and a 4.4% increase in passenger enplanements.

For additional information on AIAS, see Fitch's press release 'Fitch Affirms Alaska's International Airport System Rev Bonds 'A+', dated June 12, 2015.

SECURITY

The bonds are secured by a pledge of net airport system revenues. The state also applies PFC funds to pay debt service.

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Date of Relevant Rating Committee: June 12, 2015

Additional information is available at 'www.fitchratings.com'.

Applicable Criteria

Rating Criteria for Airports (pub. 13 Dec 2013)

https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=725296

Rating Criteria for Infrastructure and Project Finance (pub. 28 Sep 2015)

https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=870967

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